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The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 29, 1986 VOLUME XXIII, NUMBER 21

Like A Patchwork Quilt . . .

Looking at a map of the individual 50 states reveals both areas of significant strength as well as pockets of paralyzing weakness. Seldom in the past have economic conditions among the states differed so dramatically. On one end of the spectrum are such states as Connecticut and Massachusetts, which have outperformed the rest of the country by almost any yardstick of economic well-being. On the other side are such oil-producing states as Louisiana and Oklahoma, which are now trailing the rest of the nation by a wide margin in terms of economic health. While these areas of weakness have so far been unable by themselves to bring the national business expansion to a halt, they have raised serious doubts about its staying power, in the absence of effective remedial actions.

One good measure of economic health is trends in employment growth. While the country as a whole increased its payroll employment by 2½ percent between June 1985 and June 1986, this average masks wide disparities between those thriving states whose economic fortunes are tied to such industries as defense and financial services, and the many heartland states where economic growth is hobbled by their dependence on declining smokestack industries and depressed agricultural and energy sectors.

. . . The States' Economies Run . . .

Connecticut is among those states that have been able to outperform the nation as a whole in its ability to generate jobs. Buoyed by higher levels of defense-related and services jobs, the state's non-agricultural employment increased by five percent during the 12 months ending in June, twice the national rate. One result of this is that the state enjoys one of the lowest jobless rates in the nation. At 3.7 percent at midyear, this was far below the 7.3 percent unemployment rate for the country as a whole at that time.

Surging employment has brought the state prosperity. The state's per person income is, for example, the second highest in the nation. At $18,089 in 1985 it is over 30 percent above the national average. It trails only Alaska's oil-boosted income, but by less than $100. The confidence in the state's economy is also reflected in an entrepreneurial boom. Over 7,200 new business incorporations took place in the first half of 1986, an increase of more than 70 percent from the first half of last year and, by far, the highest increase in the nation.

The cause of Connecticut's success appears to have been its diversification. Since the mid-1970s, after a period in which the state appeared to be losing its industrial vigor as companies and people fled to the Sunbelt states, stepped-up efforts were made to diversify the state's economy. Formerly dominated by metal-working and defense-related industries, the state has actively sought to attract such fast-growing industries as consumer goods, fiber optics, pharmaceuticals and computer software. And because of its proximity to New York City, the state also has been able to develop expertise in banking and insurance.

. . . From Bright Spots . . .

A similar success story can be found nearly 3,000 miles away—in Arizona. With its excellent year-round climate, proximity to key southwestern markets, and a fast-growing population, Arizona has become one of the major centers in the nation for the development and manufacture of high technology products. Half of the state's manufacturing employment is in such high technology industries as computers, electronic components and scientific instruments; the remaining half is in such construction-related manufacturing as stone, glass, clay, lumber and wood.

The manufacturing sector, however, accounts for less than 15 percent of the state's total nonagricultural employment. Three out of every four Arizona workers are engaged in service-related activities, which outpaced almost all other states in their generation of new jobs. Much of the strength in the service sector is related to tourism—one of the state's largest industries—and was due to strong job gains in hotels, restaurants and auto-service stations.

But, perhaps more important, Arizona owes its

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success, at least partially, to its decidedly pro-business attitude. According to a recent study, the nation's business leaders ranked Arizona's business climate the fourth most favorable among the 48 contiguous states.

. . . To Dark Patches

At the other end of the spectrum are states that must cope with the plunge in oil prices and the continuing difficulties in the farm belt. Such states as Louisiana, Texas and Oklahoma, as well as a good chunk of the Great Plains region, have all found themselves on the cutting edge of commodity price deflation.

Take, for example, Louisiana. The energy sector is the mainstay of its economy. It is the nation's second largest natural gas producer and the third largest producer of oil. Distress in the energy sector has resulted in a 26 percent drop in mining employment in the latest 12 months. The state's rig count this month was almost 60 percent below its year-ago levels. Beyond the immediate effects on the industries directly related to oil exploration, drilling and production, falling energy prices have also damaged the fiscal health of Louisiana's public sector, which clearly depends so much on energy-related revenues. It is estimated that for every dollar drop in oil prices,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/24/86	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	198.711	+ 3.289	+16.967
Loans to Depository Inst.	1.094	+ .226	− .168
Float	.579	+ .061	+ .111
Total Reserve Bank Credit	217.097	+ 3.799	+20.766
Treasury Deposits with Federal Reserve Banks	7.625	+ 3.527	+ 1.024
Currency in Circulation	200.742	− .984	+13.224
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	161.580	+ 1.247	+33.538
	9/24/86		
Member Bank Reserves:			
Total Reserves Held	51.523	+ .092	+ 7.974
Excess (Deficiency)	.649	− .113	− .018
Net Free Reserves	.237	− .006	+ .084
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (9/15/86)	691.3	+ 16.4‡	+ 13.7‡
M2 (August '86)	2,723.6	+ 11.2	+ 8.3
M3 (August '86)	3,399.9	+ 10.2	+ 8.6
Domestic Nonfinancial Debt (1st Q'86)	7,033.5	+ 8.7	+ 14.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/26/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.27%	5.42%	5.52%
* Federal Agencies	5.45	5.57	5.64
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.94	7.03	7.31
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.82	5.82	6.05

‡ Finance Company Paper—Prime	
5- 14 days	5.80%
15- 29 days	5.75
30- 59 days	5.73
60- 89 days	5.45
90-179 days	5.30
180-239 days	5.15
240-270 days	5.15

‡* Bankers' Acceptances	
Oct.	5.75%
Nov.	5.75
Dec.	5.65
Jan.	5.65
Feb.	5.65
Mar.	5.65

‡ Industrial Paper—Prime	
30- 89 days	5.82%
90-120 days	5.78

†Federal Funds Effective Rate	5.85%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'86	$ 4,176r	$ 4,149	$ 3,965
Gross National Product (1982 Dollars)*	2nd Q'86	$ 3,662r	$ 3,656	$ 3,568
Percent Change, Annual Rate	2nd Q'86	0.6r	3.8	2.3
Change in Consumer Prices*	Aug '86n	2.4%	0.0%	2.4%
Change in Producer Prices*	Aug '86	3.6%	− 4.8%	− 3.6%
Civilian Employment (Thousands of Persons)†	Aug '86	110,155	109,882	107,210
Unemployment as % of Civilian Labor Force†	Aug '86	6.8%	6.9%	7.1%
Personal Income*	Aug '86n	$ 3,505	$ 3,493r	$ 3,321
Leading Indicators Composite Index (1967=100)†	Jul '86	179.4	177.4	169.2
Industrial Production Index (1977=100) †	Aug '86n	124.8	124.6r	124.4r
Change in Consumer Installment Credit †	Jul '86	$ 5.38	$ 5.39	$ 6.79
U.S. Merchandise Trade Balance	Jul '86	−$ 18.04	−$ 13.25	−$ 13.58
Plant and Equipment Expenditures*	4th Q'86	$383.99(a)	$380.52(a)	$397.88
Private Housing Starts (Thousands of Units)*	Aug '86n	1,822	1,815r	1,737
New Construction Expenditures*	Jul '86	$ 376.7	$ 374.8	$ 355.1
Total Business Inventories †	Jul '86n	$ 591.3	$ 588.9r	$ 580.4r
Total Business Sales †	Jul '86n	$ 428.5	$ 425.5r	$ 421.6r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Louisiana loses $500 million in taxes.

The weakness in Louisiana's economy is reflected in its pattern of income and spending growth. The state's personal income growth has been consistently below that of the nation as a whole. While personal income for the country as a whole rose by almost five percent in the last year, Louisiana's income remained stagnant. Not surprisingly, the state's retail sales in the first six months declined 1.6 percent, one of only two states—the other was Texas which finds itself in its own energy-related slump—to post declines of more than one percent among the nation's 19 largest states.

Louisiana's economic hardships are unusually severe because during the energy-boom days the state took few steps to diversify its economy. As a result, the state is extremely sensitive to the changes in world energy markets, government energy policy and the investment decisions of a relatively few energy and chemical companies. Before 1982, this did not seem to matter, and the state's booming economy attracted workers from other areas of the country, who fueled economic growth as they bought homes, cars and other goods and services. Now, a contracting economy is causing a reverse flow of people, reinforcing this state's economic contraction.

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Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/10/86)	154,238	+ 495	– 2,317
New York City (9/17/86)	32,927	+ 259	+ 523
Commercial Paper (9/17/86)	329,338	+ 6,954	+53,175

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/10/86)	256,919	– 1,812	+ 2,483
New York City (9/17/86)	57,477	+ 440	– 3,359

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/10/86)	743,173	– 4,171	+ 50,976
New York City (9/17/86)	160,934	+ 2,130	+ 6,625

Financial Markets

	Friday 9/26/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.35%	– .02	– 1.92
180-Day Bills†	5.57	– .08	– 1.83
Longest Bills†	5.77	– .04	– 2.18
Recent Issues:			
6 3/8s 9/30/88 (When Issued)	6.35	NA	
6 3/4s 9/30/90 (When Issued)	6.87	NA	
7 3/8s 5/15/96	7.44	– .24	
7 1/4s 5/16/16	7.61	– .24	
Municipals:			
Bond Buyer–20 Bond Index* (9/25/86)	7.15%	+ .01	– 2.23
Blue List Total ($ Million)	$1,647	+ $ 52	– $ 311
30-Day Visible Supply ($ Million)	$2,055	+ $215	– $1,731
Total	$3,702	+ $267	– $2,042
Corporates:			
Moody's Aa Composite (9/25/86)	9.40%	– .03	– 2.09
30-Day Visible Supply ($ Million)	$3,706	– $512	+ $ 708
Stocks:			
Dow-Jones Averages:			
Industrials	1,769.69	+ 7.18	+ 448.90
Transportation	784.25	+ 4.12	+ 140.64
Utilities	201.75	+ .66	+ 51.67
65 Stocks	701.06	+ 2.98	+ 165.43
N.Y.S.E. Composite Index	133.94	+ .45	+ 29.12
N.Y.S.E. Avg. Daily Vol. for Week (000's)	128,668	–14,120	+ 28,448

* 46% Taxable equivalent 13.24%.

† Bond equivalent.

International Rates

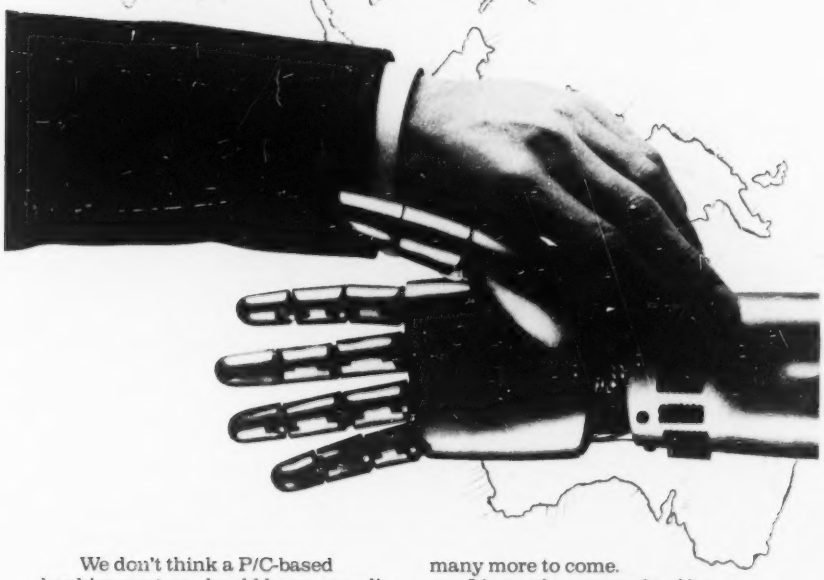
EURODOLLAR DEPOSIT RATES (bid)	Friday 9/26/86	Week Ago
Overnight	5.81%	5.75%
1 month	6.00	6.06
3 month	6.00	6.06
6 month	6.00	6.06
1 year	6.13	6.25
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.57%	7.49%
Long Term (7 to 15 yrs.)	8.35	8.26

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/26/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02362	42.33
Canada	.7195	1.3899
Denmark	.1292	7.7395
France	.1495	6.6855
Germany	.4898	2.0415
Italy	.0007084	1411.50
Japan	.006482	154.25
Mexico	.001325	754.50
Netherlands	.4335	2.3070
Switzerland	.6045	1.6542
U.K.	1.4367	.6960

At Manufacturers Hanover, the imagination of our people sparks the pulse of technology.

Working together, they simplify electronic banking for correspondents in Asia and the Pacific.



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Global Financial Institutions Division

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